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AIR CANADA / Annual Report 1966

ANTIGUA
BARBADOS
BERMUDA
BOSTON
CALGARY
CHICAGO
CLEVELAND
COPENHAGEN
EARLTON
EDMONTON
FORT WILLIAM
FRANKFURT
FREDERICTON
FREEPORT
GANDER
GOOSE BAY
HALIFAX-DARTMOUTH
JAMAICA
KINGSTON
MONTEGO BAY
LETHBRIDGE
LONDON, ENG.
LONDON, ONT.
MIAMI
MONCTON
MONTREAL
MOSCOW
NASSAU
NEW YORK
NORTH BAY
OTTAWA
PARIS
PORT ARTHUR
PRESTWICK
QUEBEC CITY
REGINA
ROUYN-NORANDA
SAGUENAY
SAINT JOHN
ST. JOHN'S
SASKATOON
SAULT STE. MARIE
SEATTLE
SEPT-ILES
SHANNON
STEPHENVILLE
SUDBURY
SYDNEY
TAMPA
TIMMINS
TORONTO-HAMILTON
TRINIDAD
TROIS-RIVIERES
VAL D'OR
VANCOUVER
VICTORIA
VIENNA
WINDSOR
WINNIPEG
YARMOUTH
ZURICH

MAR 20 1967

AIR CANADA

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Throughout most of the year the Board of Directors consisted of the following members:

Appointed by Governor-in-Council:

G. R. McGREGOR, O.B.E., D.F.C., F.R.Ae.S., HON. F.C.A.S.I., Montreal

R. H. McISAAC, Winnipeg

J. G. SIMPSON, Halifax

WELLAND D. WOODRUFF, Toronto

Elected by the Shareholders:

R. A. BROWN, Jr., Calgary

DONALD GORDON, C.M.G., LL.D., Montreal

W. C. KOERNER, LL.D., Vancouver

J. LOUIS LEVESQUE, Montreal

BERNARD TAILLEUR, Montreal

EXECUTIVE OFFICES:
Place Ville Marie
Montreal, Quebec

Officers:

President: G. R. McGREGOR

Executive Vice President: H. W. SEAGRIM

Senior Vice President – Sales: W. G. WOOD

Senior Vice President – Finance: W. S. HARVEY

Vice President – Operations: D. C. TENNANT

Vice President – Administrative Services: S. W. SADLER

Vice President – Public Relations: R. C. MacINNES

General Counsel: LIONEL COTE, Q.C.
I. E. McPHERSON

Secretary of the Company: R. T. VAUGHAN

General Manager, Purchases and Stores: K. E. OLSON

The Year in Brief

	1966	1965	% Change
Revenue Passengers Carried	5,293,561	4,753,395	+11
Revenue Passenger Miles	4,331,583,000	3,715,635,000	+17
Revenue Ton Miles	534,522,000	444,139,000	+20
Average Return per Passenger Mile*	5.82¢	5.93¢	− 2
Average Return per Revenue Ton Mile	53.67¢	56.07¢	− 4
Passenger Load Factor	65.9%	65.2%	
Weight Load Factor	53.0%	51.2%	
Operating Cost per Available Ton Mile	27.34¢	27.35¢	—
Total Cost per Available Ton Mile	28.15¢	28.35¢	− 1

*Excludes Charter.

Financial Review

OPERATING RESULTS FOR 1966 COMPARED WITH 1965 ARE AS FOLLOWS:

	1966	1965	Change
Operating income	$13,953,283	$12,724,541	+$1,228,742
Non-operating expense			
Interest on debt	11,579,581	11,297,912	+ 281,669
Non-operating income—net	(3,446,176)	(2,563,331)	+ 882,845
	8,133,405	8,734,581	− 601,176
Income	5,819,878	3,989,960	+ 1,829,918
Provision for income taxes	2,910,000	—	+ 2,910,000
Net income	$ 2,909,878	$ 3,989,960	−$1,080,082

Annual Report 1966

February 1, 1967

TO THE HONOURABLE
THE MINISTER OF TRANSPORT,
OTTAWA

Sir,

The Board of Directors submit the Annual Report for the Air Canada system for the year 1966.

Substantial gains in passenger and cargo traffic in every area of operation resulted in increased revenues, a year-end profit and continuation of the airline's sound financial position during a period of dynamic national economic expansion and prosperity.

The exceptional growth in traffic was satisfactorily met with the introduction of additional jet aircraft into the fleet and a gratifying increase in aircraft utilization, improved operational efficiency and productivity.

Financial

Net income in 1966, after provision for income taxes, was $2,909,878. This was the fourth consecutive year of profit, and the thirteenth in the past sixteen years. Interest paid on loans and debentures amounted to $11,579,581, and a dividend on issued stock of $4 per share was again declared. As permitted by tax regulations, the company claims capital cost allowances for tax purposes in excess of recorded depreciation. Since this represents a deferment of liability to future years, a provision of $2,910,000 was made in 1966.

Income before taxes totalled $5,819,878, a considerable improvement over the previous year. Major factors were a 20% growth in the total traffic volume and slightly higher load factors. Unit costs were virtually unchanged, but unit revenue yields continued their decline in contrast to rising prices generally.

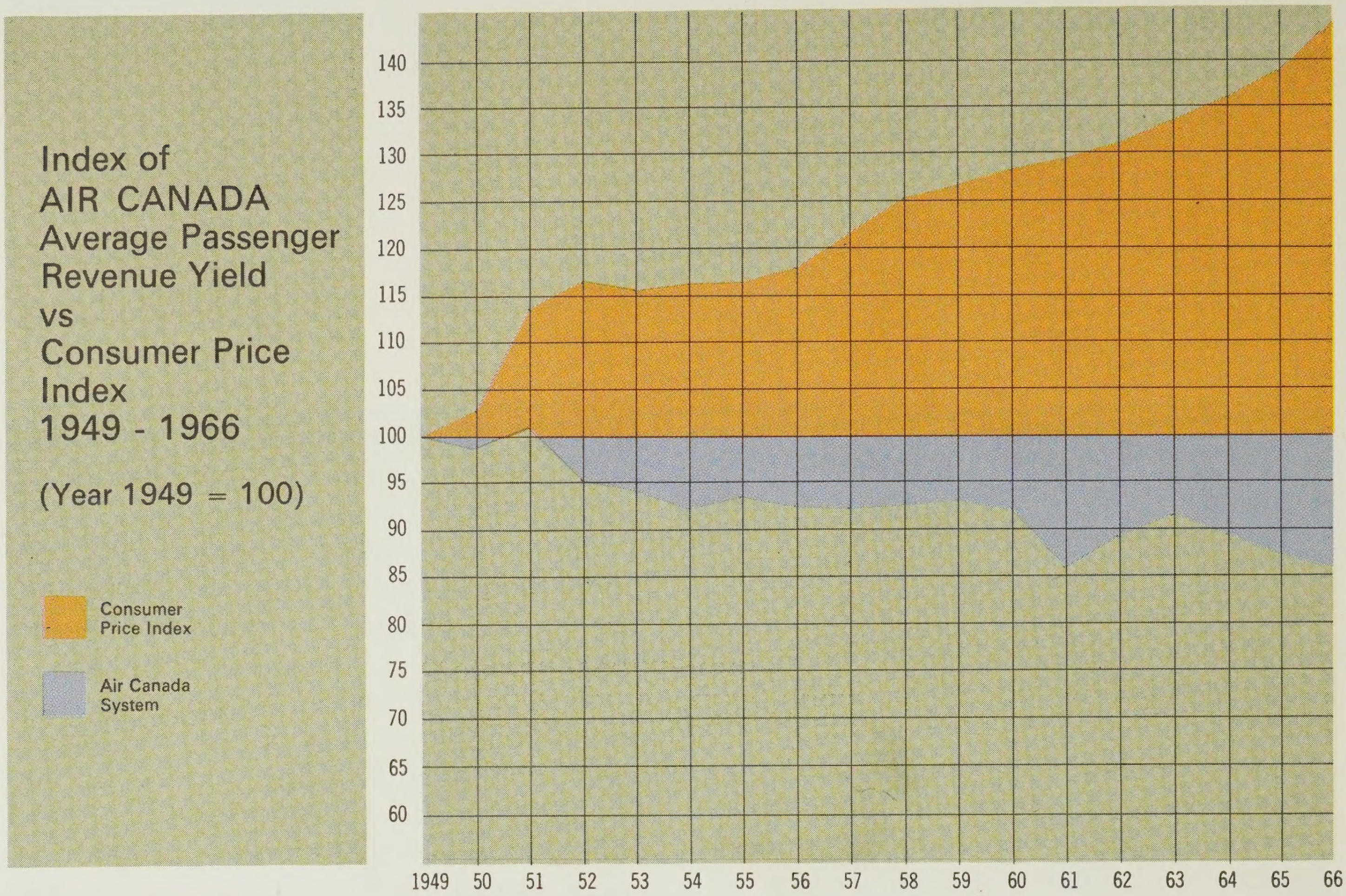
Operating revenues increased 16% over 1965 to $290 million. Passenger revenues experienced a similar growth while revenue from express and freight traffic advanced 24%.

A series of strikes had a significant impact on traffic growth during the year. In particular, work stoppages involving trucking services in Ontario, port handling in Quebec, United Kingdom shipping, Canadian railways and, most notably, five major U.S. airlines, resulted in substantial traffic diversion to Air Canada services. However, the benefits derived were offset by a strike against the company which prevented all flying operations for two weeks in November and caused severe traffic losses over a somewhat longer period.

Passenger traffic advanced 17% over the previous year while the volume of freight expanded 33%. In both cases the average revenue yield declined.

The average return per passenger mile was 5.82¢ compared with 5.93¢ in the previous year. Contributing to this reduction were extended promotional fares and an increase in the proportion of economy class travel following conversion of Viscount aircraft to carry economy class passengers only in four-abreast seating. The average revenue per freight ton mile also declined, from 24.90¢ in 1965 to 23.88¢, with shippers making greater use of specific commodity rates, and the DC-8 all-freighter service providing increased scope for heavier shipments involving lower rates.

Operating expenses rose 16% to $276 million. With the loss of production during the


Index of
AIR CANADA
Average Passenger
Revenue Yield
vs
Consumer Price
Index
1949 - 1966
(Year 1949 = 100)
Consumer Price Index
Air Canada System
140
135
130
125
120
115
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1949 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66


Index of
AIR CANADA
Average Freight
Revenue Yield
vs
Consumer Price
Index
1949 - 1966
(Year 1949 = 100)
Consumer Price Index
Air Canada System
140
135
130
125
120
115
110
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100
95
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85
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75
70
65
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1949 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66

strike period, unit costs showed little change from the previous year.

Tax expense was again substantial, amounting to $11.2 million. Property, fuel and sales taxes paid to Provincial and Municipal authorities in Canada alone amounted to $4.0 million compared with $3.5 million in 1965. In addition, 1966 expenses include $1.6 million of payroll taxes and an estimated $5.5 million of federal sales tax and customs duty. Further, on behalf of Canadian governments, the company collected from its employees over $12 million of payroll taxes and a further $1 million of pension plan contributions.

Capital expenditures in 1966 totalled $61.1 million, well within the capital budget. For the fourth successive year, these expenditures were met with funds generated within the company. However, substantial additions to the fleet will necessitate some external financing commencing in 1967.

Traffic and Service Growth

Keeping pace with a buoyant national economy, Air Canada carried record numbers of passengers and quantities of air cargo, despite a two-week strike which closed the airline down in November for the first time in its 29-year history. The company transported 5,293,561 passengers on scheduled and charter flights during 1966. Air freight traffic rose 33% to 74.6 million ton miles, air express 13% to 6.3 million ton miles and air mail 10% to 19.1 million ton miles.

Total scheduled seat miles offered were 6,387 million, up 17% from 1965, while scheduled revenue passenger miles flown exceeded 4,193 million, an increase of 18%. The system passenger load factor for the 12 months was 66%, up slightly from the previous year.

On North American routes scheduled passenger miles flown exceeded 2,984 million, a rise of 15%, as additional services were added to meet the rapidly growing requirement of an aviation-conscious travelling public. Almost three-quarters of Air Canada's total passenger traffic was carried on routes within the continent.

On trans-Atlantic routes there was a 26% increase in scheduled passenger traffic as travel between North America and Europe continued to expand under the stimuli of rising incomes, increased trade and a growing community of economic and cultural interest between the Old World and the New. Charter traffic across the Atlantic was 22% lower than in 1965, accounting for less than 14% of passenger traffic on these routes.

Southern services to Florida, Bermuda, the Bahamas and the islands of the Caribbean enjoyed a substantial 28% increase in passenger traffic, principally as a result of a major expansion in available seat capacity, reflecting the growing interest of Canadians in these southern vacationlands.

There was a marked increase in commodity traffic. To meet this growing requirement, two Douglas DC-8 jets were operated in all-freight configuration, each capable of carrying approximately 70,000 pounds of cargo on 12 pallets. One turbo-prop Vickers Vanguard was converted to all-freight configuration late in the year to carry approximately 32,000 pounds of cargo. Air Canada maintained three weekly round-trip freighter flights across the

North Atlantic, operating between Montreal, Shannon, Prestwick, London, Paris, Frankfurt, Zurich and Vienna on a scheduled basis. The second freighter served Montreal, Toronto, Winnipeg, Edmonton and Vancouver with five return flights a week, while the Vanguard operated on a non-scheduled basis, serving various North American communities as required. Due to the Vanguard's smaller size, it is able to operate in and out of smaller communities where DC-8 freighter service is impractical. In addition, passenger aircraft carried substantial commodity traffic in cargo holds.

The accelerating pattern of air freight expansion being experienced by Air Canada and virtually every other major international carrier is largely the consequence of increasing industrial production in the western world, growing world markets and a stimulated corporate awareness of the advantages of jet speed in overall procurement and distribution programs. Bulk shipment and specific commodity rates introduced in 1966 also served as powerful incentives for using air freight.

Domestic mail traffic increased by 11% to 15.6 million ton miles in 1966, with the rate of return declining to 52¢ per ton mile.

All possible assistance was given the Post Office Department during the railway strike with the result that no embargoes were necessary on first class mail during that difficult period. It is worthy of note that disruption of first class mail service during the cessation of Air Canada services in November was kept to a minimum by the use of chartered aircraft and alternate surface transportation.

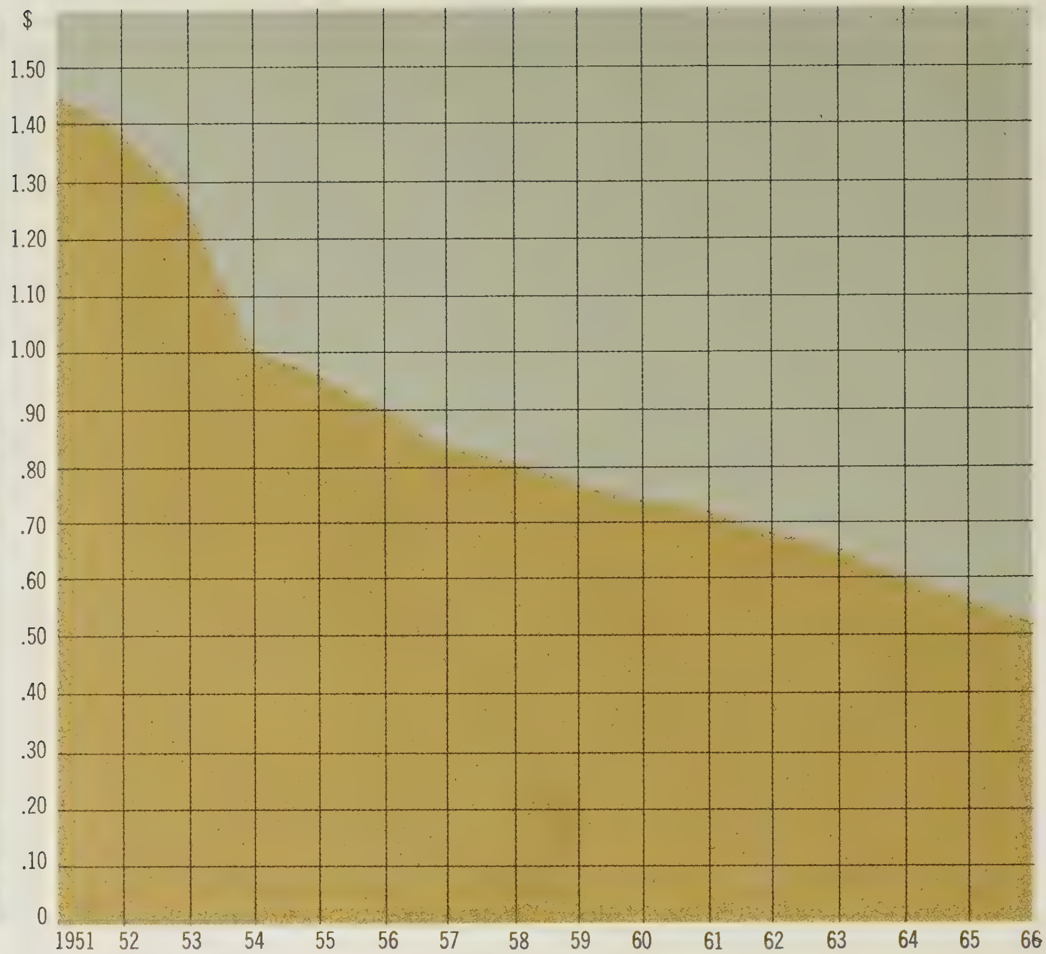
Following successful completion of bilateral negotiations between the Canadian and United States governments early in the year, Air Canada was designated to serve three new transborder routes: Toronto-Los Angeles, Montreal-Chicago non-stop and extension of its Florida service to Miami. Service on the latter route was inaugurated August 1, while operations on the other two routes will begin in 1967.

A milestone in the airline's development as a major international carrier was reached November 1 when Air Canada inaugurated service between Montreal, Copenhagen and Moscow with a weekly return DC-8 jet flight to become the first North American carrier to operate regularly into the Soviet Union and the first Canadian airline to serve the Scandinavian countries. On November 4, Aeroflot, the Soviet carrier, began a reciprocal non-stop service between Moscow and Montreal.

Frankfurt replaced Dusseldorf as Air Canada's German terminus in April, while new non-stop flights between the Western Canadian cities of Vancouver, Calgary and Edmonton and the United Kingdom, were inaugurated in the spring of the year. During the peak summer months of 1966, the airline operated 28 return flights a week between Canada and the United Kingdom and another nine a week between Canada and continental Europe, compared with 23 and seven respectively in 1965. This substantial increase, which included the direct flights to and from Western Canada, evoked a powerful public response.

Air Canada's Viscount fleet was converted

Average Return
Per Mail
Ton Mile -
North American
1951 - 1966



to 48-seat four-abreast configuration in May, providing first class seating at economy fares. On September 8 the Viscounts recorded one million flying hours in the company's service.

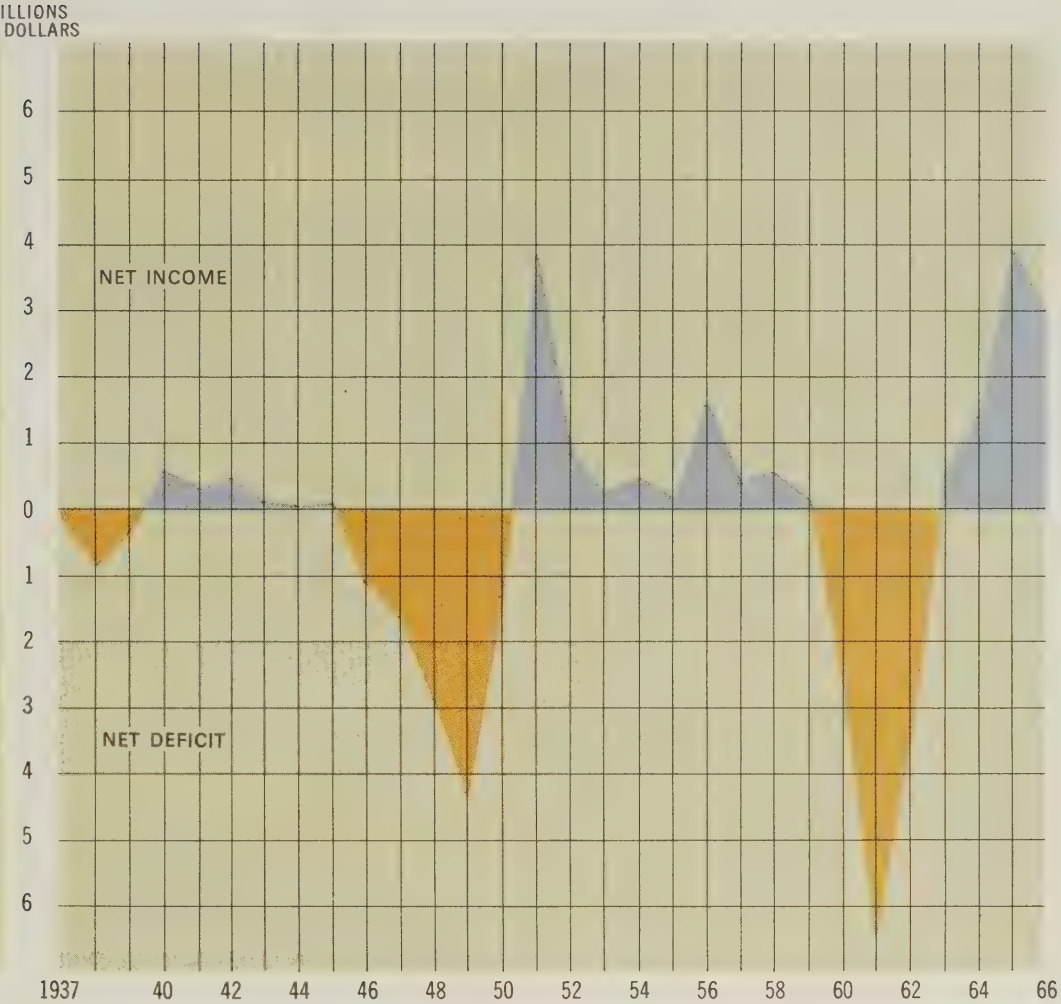
Air Canada and Canadian Pacific Air Lines continued to work together in many areas to present a united Canadian front in the highly competitive field of international air transport, while the commercial agreement between Air Canada and British Overseas Airways Corporation provided customers with the finest possible service between Canada and the United Kingdom.

In December, the airline announced the lowest fares ever proposed for travel on trans-Atlantic routes, effective January 1, 1967. These new inclusive tour fares, applicable to groups of 15 or more persons travelling together, are based on a constant rate-per-mile formula, providing dramatic reductions in the cost of overseas travel. It was the strong stand taken by Air Canada at International Air Transport Association conferences in Honolulu and Rome which was largely responsible for adoption of the new, low fare structure.

Throughout the year, the company conducted a continuing advertising and promotional program designed to increase passenger and cargo traffic and to impress the airline's corporate identity upon the public mind.

At the year end, Air Canada was operating over 63,692 miles of air routes, directly serving 60 communities in Canada, the United States, the United Kingdom, continental

Net Income or Deficit, 1937 - 1966



Europe, Bermuda, the Bahamas and the islands of the Caribbean as one of the world's 10 largest airlines. The airline's extensive route pattern is illustrated on pages 12 and 13.

Equipment and Facilities

During the year, the airline accepted delivery of two 139-passenger Douglas DC-8s and six twin jet Douglas DC-9s. The 72-passenger DC-9s were introduced into service in April.

Announced in 1965 as on order for delivery in 1967 and 1968 were 12 larger 94-passenger versions of the DC-9 and six 196-passenger versions of the DC-8.

At the year end, Air Canada was operating an all-turbine fleet of 18 DC-8s, six DC-9s, 23 Vanguards and 39 Viscounts, all of which achieved improved utilization in 1966 as compared to 1965. The extremely efficient pure jet DC-8s and DC-9s provided 57% of total seat miles. This will grow to 65% with the acquisition of new jets in 1967.

More than 98% of the airline's scheduled mileage was completed as Air Canada continued to maintain its well-earned reputation for operating reliability, a reputation that is the product of well-trained, conscientious personnel and the finest equipment available.

The first passenger loading bridge in Canada was installed by the airline at Montreal International Airport in December, providing a new degree of comfort and convenience for boarding and deplaning passengers. Seven additional units will be installed at Montreal in 1967, while further installations are planned for Toronto, Winnipeg and Edmonton in 1967

ROUTES of AIR CANADA

The borders, boundary lines etc. shown on these maps are as accurate as current political situations will permit. They do not represent the views or opinions of Air Canada or other parties responsible for the reproduction of the maps.

Les frontières, lignes de démarcation et autres signes portés sur ces cartes sont aussi fidèles que le permet la situation politique actuelle et ne reflètent l'opinion ni d'Air Canada ni des responsables de leur reproduction.

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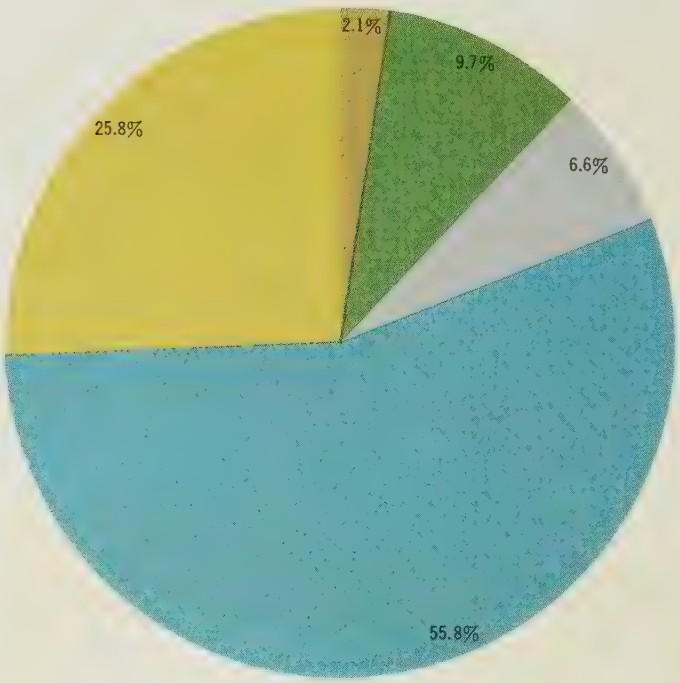
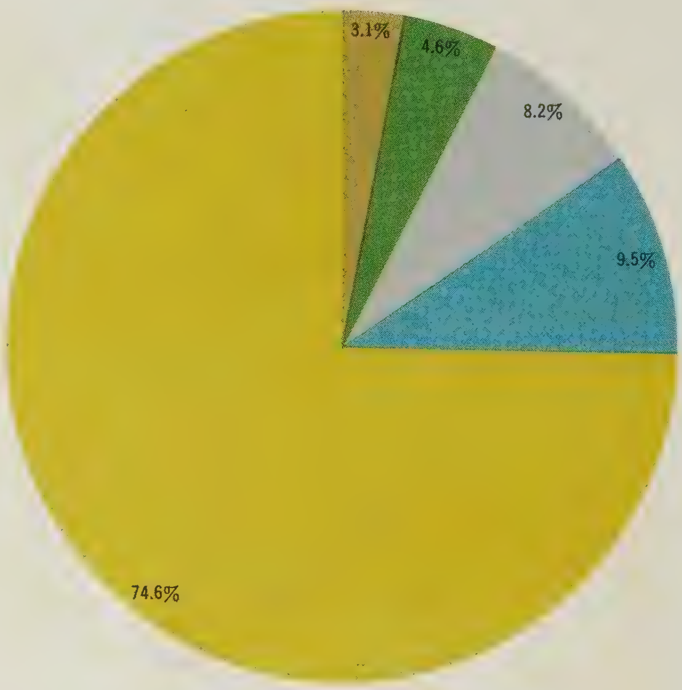
Sources of Revenues 1956



Sources of Revenues 1966



and for Vancouver, Halifax and Ottawa in 1968. Loading bridges will also be erected by Air Canada at Miami and Chicago.

To accommodate rapidly expanding air freight traffic the airline completed two new air freight terminals, one at Moncton, New Brunswick, and another at St. John's, Newfoundland, the latter the largest of its kind in Canada east of Montreal.

Construction started on new cargo terminal facilities at London, England, and Calgary, while plans were finalized for a major expansion of the existing terminal at Toronto. Preliminary planning of new cargo buildings at Winnipeg and Vancouver, for occupancy in 1968, was completed, and negotiations were initiated to secure new cargo terminal space at Chicago and New York City.

Traffic growth and customer demand necessitated an unprecedented expansion of Sales Department facilities in 1966. New offices were opened in Athens, Barbados, Buffalo, Frankfurt, Los Angeles, Lyon, Miami and Moscow. At the same time, offices were relocated and expanded at Copenhagen, Geneva, New York, San Francisco and Victoria. This major program will be continued through 1967 and beyond.

Personnel

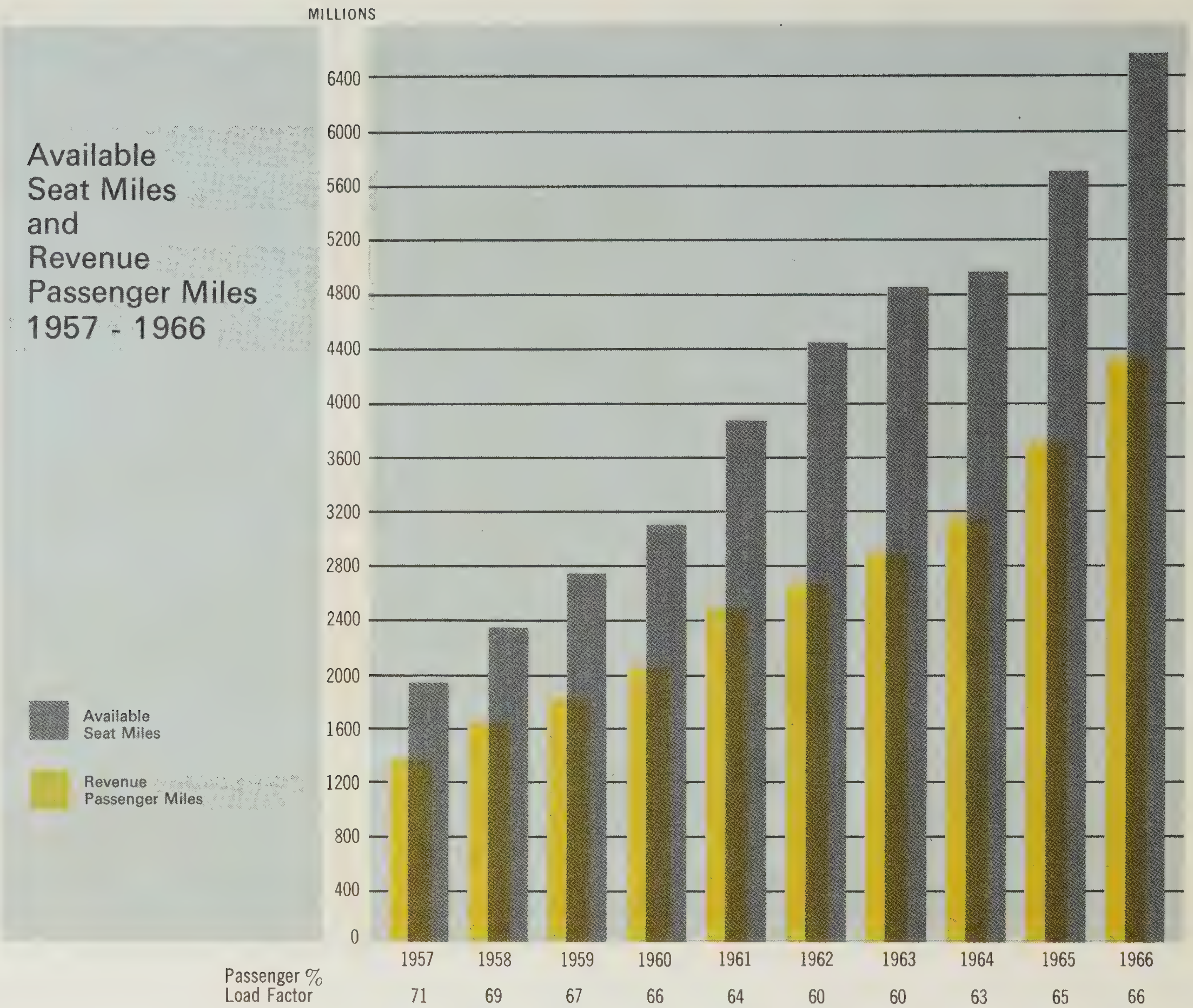
Although the unfortunate strike by 5,200 members of the International Association of

Machinists and Aerospace Workers forced suspension of the company's operations for 14 days, the orderly manner in which the work stoppage was effected and efficient resumption of service following settlement was a tribute to the unstinting efforts of supervisory personnel. The strike action was a manifestation of the general unrest existing in the Canadian labour force during the year. Three of the airline's four major collective agreements were negotiated in 1966.

At the year end, 14,351 employees were on staff as compared to 12,709 in 1965. Most significant increases occurred in flight crews, with the number of pilots rising from 715 to almost 1,000, and the number of flight attendants from 760 to 1,090. In the case of the latter, the combination of high turnover and increased requirements resulted in the hiring of approximately 600 stewardesses and pursers during the year, of whom more than 50% were bilingual.

Board of Directors

Retiring from the Board during the year were R. A. Brown, Jr., Hon. Leslie Frost, Q.C., LL.D., Donald Gordon, C.M.G., LL.D. and J. Louis Levesque, all of whom made a valuable contribution to the company during their terms of office. Appointed to the Board during the year was Welland D. Woodruff, of Toronto. At year end David A. Anderson, of



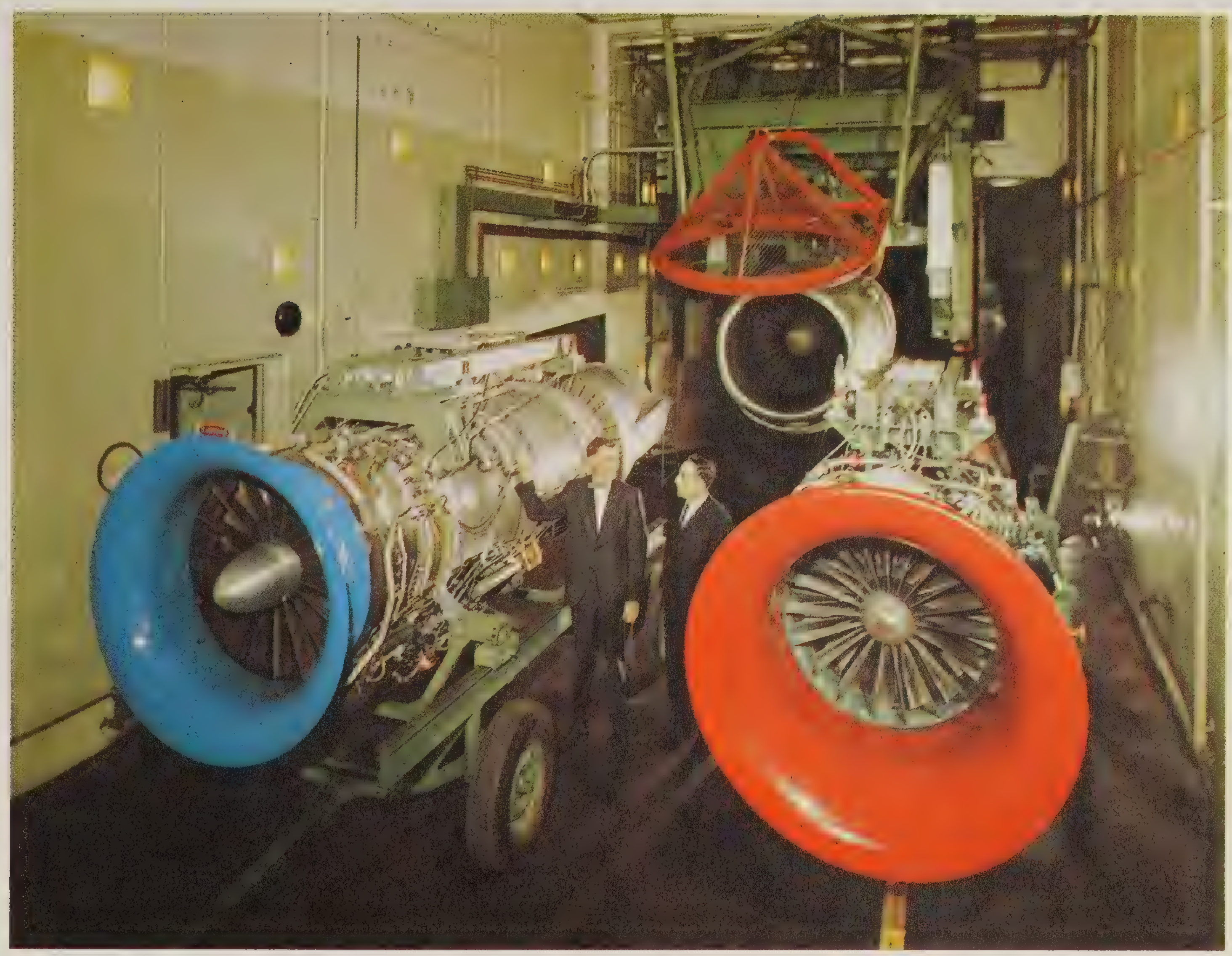
Toronto, N. J. MacMillan, Q.C., LL.D., of Montreal, and Renault St. Laurent, Q.C., of Quebec City, joined the Board.

Special mention must be made of Mr. Gordon who served upon the Board from January 1, 1950, until December 31, 1966, giving unstintingly of his time and business acumen during a period of unprecedented expansion.

Outlook

Air Canada expects that passenger and cargo traffic will continue to grow and is forecasting another profit in 1967 despite the increasing inflationary pressures which are having a significant impact upon prices and wages. With delivery of new and larger jet aircraft in 1967, increased frequencies will be offered on domestic and international services, and operations will be extended to Los Angeles and introduced on the Montreal-Chicago nonstop route.

Air Canada moved closer to the supersonic era on December 5 when it announced that it was reserving delivery positions on the production lines for four 1,450-mile-an-hour supersonic Anglo-French Concordes, scheduled for Air Canada service in 1973-74, and for six United States-made, 1,800-mile-an-hour supersonic transports, to be introduced in 1977.



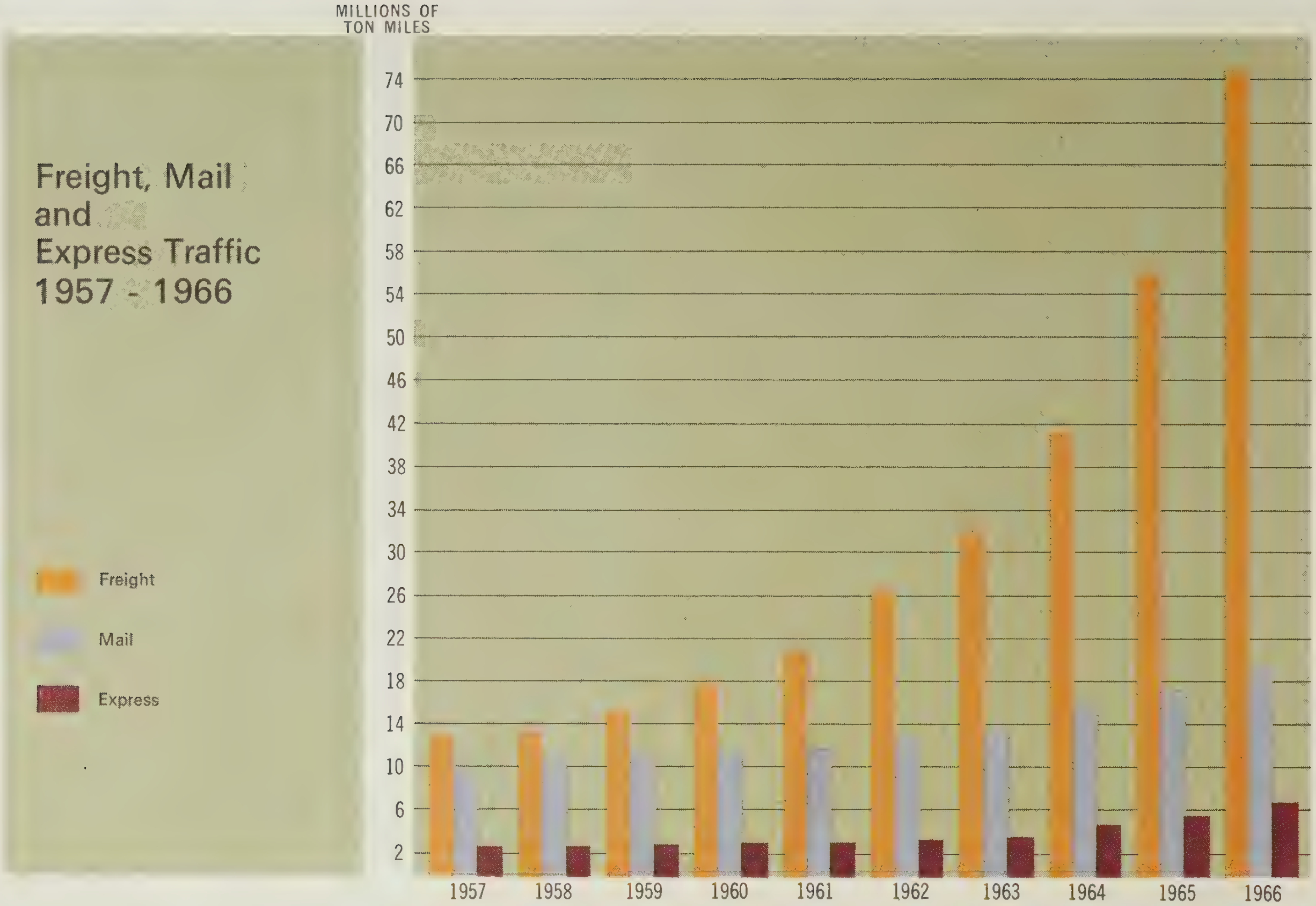
The Department of Transport is continuing a comprehensive program of airport expansion and improvement which is greatly benefiting the airline and the travelling public, although much still remains to be accomplished to cope with the rising tide of traffic expected in 1967 and in future years.

Expo 67 and Canada's nationwide Centennial activities will challenge Air Canada's capacities during 1967, largely due to regrettable delays in delivery of new aircraft ordered some time ago. However, the airline is confident that it will be able to satisfactorily meet the requirements of its customers.

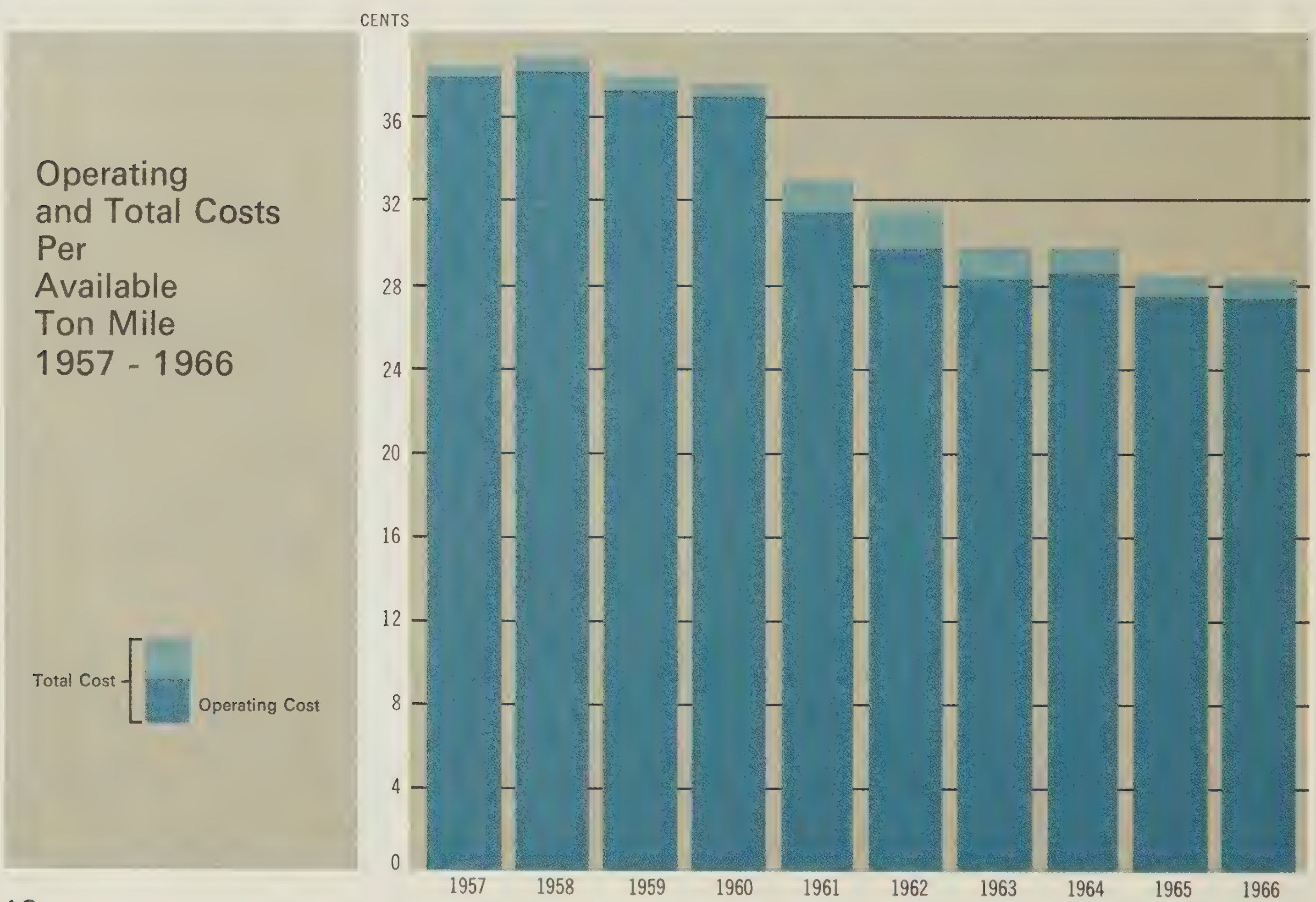
Work on the company's unique helical-roofed pavilion at Expo 67 continued on schedule. The official insignia of the Canadian Centennial and of Expo 67 were affixed to all aircraft, and late in the year the airline announced that it was sponsoring a series of nine major spectaculars on the Canadian Broadcasting Corporation's television stations across Canada as another part of its total contribution to Canada's 1967 Centennial celebrations.

In summary, Air Canada enjoyed a profitable year of continuing growth in 1966, successfully resolving the many problems arising naturally from the rapid expansion of the company and the increasing complexity of its operations. The airline looks forward to 1967, when it will celebrate its 30th birthday as the

Freight, Mail and Express Traffic 1957 - 1966



Operating and Total Costs Per Available Ton Mile 1957 - 1966



nation marks its Centenary. Proud of the part it is playing in Canada and throughout the world, Air Canada faces the future with confidence.

The diligence and enterprise of all personnel were again largely responsible for the airline's achievements during 1966.

For the Directors,

G R McGregor

President.

Balance Shee

Assets

CURRENT		
Cash		$ 23,479,190
Accounts receivable		
Government of Canada	$ 3,177,303	
General traffic	20,948,676	
Other	4,306,360	28,432,339
Materials and supplies – at cost less obsolescence.		18,908,213
Prepaid expenses		1,251,314
		72,071,056
REFUNDABLE FEDERAL CORPORATION TAX		1,569,059
INSURANCE FUND		10,000,000
CAPITAL ASSETS		
Property and equipment – at cost	360,837,589	
Less: Accumulated depreciation.	164,870,570	
	195,967,019	
Progress payments	26,860,734	222,827,753
		$306,467,868

This is the balance sheet referred to in our report to the Minister of Transport dated February 7th, 1967.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants,
Auditors.

s at December 31, 1966

Liabilities

CURRENT			
Accounts payable			$ 12,192,862
Traffic balances payable to other airlines			10,355,521
Air travel plan deposits			1,861,110
Salaries and wages			8,209,854
Unearned transportation revenue			8,202,386
Interest and dividend payable			3,633,347
			44,455,080
LOANS AND DEBENTURES – Canadian National Railways			
Notes payable		$ 55,371,000	
Debentures		180,448,500	235,819,500
DEFERRED INCOME TAXES			2,910,000
INSURANCE RESERVE			10,000,000
CAPITAL STOCK			
Common stock – authorized 250,000 shares par value $100 per share			
– issued and fully paid, 50,000 shares			5,000,000
SURPLUS			
Balance, January 1, 1966		5,573,410	
Net income, year 1966	$ 2,909,878		
Less: Dividend at $4 per share	200,000	2,709,878	8,283,288
			$306,467,868

Notes:

1. Balance of payments for equipment commitment was $165,000,000.
2. The contingent liability in respect of notes under discount with banks in connection with the Pay Later Plan was $2,400,000.
3. In 1966 a provision for Deferred Income Taxes was made at 50% of the Income.

W. S. HARVEY,
Senior Vice President—Finance

Statement of Income

	1966	1965
OPERATING REVENUES		
Passenger	$243,877,201	$209,925,578
Express and freight	23,730,618	19,139,903
Mail	13,193,444	12,699,240
Excess baggage	1,170,906	1,175,774
Charter	4,902,665	6,093,901
Incidental services – net	3,068,508	1,091,124
	289,943,342	250,125,520
OPERATING EXPENSES		
Flying operations	60,789,528	52,000,358
Maintenance	56,600,572	51,597,208
Passenger service	23,982,428	19,131,771
Aircraft and traffic servicing	41,622,271	35,754,226
Sales and promotion	44,828,447	36,871,263
General and administrative	11,282,307	9,783,056
Depreciation	36,884,506	32,263,097
	275,990,059	237,400,979
OPERATING INCOME	13,953,283	12,724,541
NON-OPERATING EXPENSE		
Interest on debt	11,579,581	11,297,912
Non-operating income – net	(3,446,176)	(2,563,331)
	8,133,405	8,734,581
INCOME	5,819,878	3,989,960
PROVISION FOR INCOME TAXES	2,910,000	—
NET INCOME	$ 2,909,878	$ 3,989,960

Auditors' Report

TO THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA

We have examined the balance sheet of Air Canada as at December 31, 1966, and the statement of income for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Corporation, the accompanying balance sheet and related statement of income are properly drawn up so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1966, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the Corporation and the transactions that have come under our notice have been within the powers of the Corporation.

Touche, Ross, Bailey & Smart

February 7, 1967.

Chartered Accountants

Significant Statistics

		1966	1965	% Change
Revenue Passengers Carried	– Scheduled . . .	5,216,604	4,673,754	+12
	– Charter	76,957	79,641	– 3
	– Total	5,293,561	4,753,395	+11
Revenue Passenger Miles (000's)	– Scheduled . . .	4,193,212	3,542,867	+18
	– Charter	138,371	172,768	–20
	– Total	4,331,583	3,715,635	+17
Mail Ton Miles (000's)		19,081	17,287	+10
Express Ton Miles (000's)		6,289	5,562	+13
Freight Ton Miles (000's)		74,628	56,100	+33
Revenue Ton Miles (000's)		534,522	444,139	+20
Available Seat Miles (000's)		6,573,663	5,700,020	+15
Available Ton Miles (000's)		1,009,394	868,104	+16
Revenue Passenger Load Factor.		65.9%	65.2%	
Weight Load Factor		53.0%	51.2%	
Average Flight Stage Length-Miles*		417	389	+ 7
Average Passenger Journey-Miles*		804	758	+ 6
Available Ton Miles per Aircraft Hour.		4,420	4,308	+ 3
Average Number of Employees		13,718	12,253	+12
Available Ton Miles per Employee		73,582	70,848	+ 4

*Excludes Charter.